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December 12, 2002

Honorable Board of Supervisors  
County of Orange  
Santa Ana, California

Your Honorable Board:

The Comprehensive Annual Financial Report (CAFR) of the County of Orange, State of California, for the fiscal year ended June 30, 2002, is hereby submitted in accordance with the provisions of Sections 25250 and 25253 of the Government Code of the State of California. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the County. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and changes in financial position of the various funds of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

This CAFR was prepared to satisfy the new financial reporting requirements for state and local governments issued by the Governmental Accounting Standards Board (GASB), specifically GASB Statement No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"* (GASB 34), and subsequent related statements issued by the GASB. This is the County's first financial report issued under the new governmental reporting model, although the County issued "Pro Forma" financial reports using the new model for fiscal years ended June 30, 2000 and June 30, 2001 in preparation for converting to the new reporting requirements. Further information regarding the new reporting requirements can be found in Note 1.O in the Notes to the Basic Financial Statements. The primary differences between the old financial reporting model and the new GASB Statement No. 34-based reporting model are summarized in Note 1.B in the Notes to the Basic Financial Statements.

The CAFR has been audited by the independent certified public accounting firm of Macias, Gini & Company LLP. The goal of the independent audit was to provide reasonable assurance about whether the basic financial statements of the County of Orange for the fiscal year ended June 30, 2002, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall basic financial statement presentation. The independent certified public accounting firm concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the County of Orange's financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information, which collectively comprise the basic financial statements, as of and for the fiscal year ended June 30, 2002, present fairly, in all material respects, the financial position, changes in financial position and cash flows, where applicable, of the County of Orange in conformity with generally accepted accounting principles.

The County is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Information related to this single audit, including the Schedule of Expenditures of Federal Awards, Findings and Questioned Costs, and the independent auditor's reports on internal control and compliance with applicable laws and regulations, are included in a separate annual publication.

Copies of this CAFR, the Single Audit Report, the County Proposed and Final Budgets, booklets specifying the tax rates and assessed valuations of taxing agencies in Orange County, and financial reports of certain funds or functions for which the County has fiduciary responsibility, may be obtained from the office of the County Auditor-Controller.

## PROFILE OF THE GOVERNMENT

The County of Orange, incorporated in 1889 and located in the southern part of the State of California, is one of the major metropolitan areas in the state and nation. Orange County occupies a land area of 798 square miles with a coastline of 42 miles serving a population of over 2.9 million. It represents the second most populous county in the state, and ranks fifth in the nation. Population growth exceeded that of the state in 2001 (2.06% vs. 1.9%).



The County of Orange is a charter county as a result of the March 5, 2002 voter approval of Measure V, which provides for an electoral process to fill mid-term vacancies on the Board of Supervisors. Before Measure V, as a general law county, mid-term vacancies would otherwise be filled by gubernatorial appointment. In all other respects, the County is like a general law county. The County is governed by a five-member Board of Supervisors, who each serve four-year terms, and annually elect a Chairman and Vice-Chairman. The supervisors represent districts that are each equal in population. The district boundaries were revised effective September 14, 2001, incorporating the results of the 2000 census. A County Executive Officer (CEO) directly or indirectly oversees 23 County Departments, seven of which have elected department heads. The preceding Supervisorial Districts map shows the boundaries of Orange County and the area governed by each member of the Board of Supervisors.

The County provides a full range of services, including countywide services, unincorporated area services, and contract services for cities. These services are outlined in the following table:

<i><b>Countywide Services</b></i>	<i><b>Unincorporated Area Services</b></i>	<i><b>Contract Services for Cities</b></i>
Affordable Housing (Housing Authority)	Animal Control	Animal Control
Agricultural Commissioner	Land Use	Law Enforcement
Airport	Law Enforcement	Libraries
Child Protection & Social Services	Libraries	Public Works & Engineering
Clerk-Recorder	Parks	
Coroner & Forensic Services	Public Works & Engineering	
District Attorney	Roads	
Elections & Voter Registration	Surveyor	
Environmental Health	Water Disposal Collection	
Family Support Collection		
Flood Control & Transportation		
Grand Jury		
Harbors, Beaches & Parks		
Indigent Medical Services		
Jails & Juvenile Facilities		
Juvenile Justice Commission		
Landfills & Solid Waste Disposal		
Law Enforcement		
Probationary Supervision		
Public Administrator/Guardian		
Public Assistance		
Public Defender/Alternate Defense		
Public & Mental Health		
Tax Assessment & Collection		
Weights & Measures		

In addition to these services, the County is also financially accountable for the reporting of component units. Blended component units, although legally separate entities, are, in substance, part of the County's operations, and therefore data from these units are combined with data of the County. The County has one component unit, the Orange County Children and Families Commission (OCCFC), which requires discrete presentation in the government-wide financial statements. The following entities are presented as blended component units in the basic financial statements for the fiscal year ended June 30, 2002: the Orange County Flood Control District, Orange County Development Agency, Orange County Housing Authority, Orange County Civic Center Authority, Orange County Financing Authority, Orange County Special Financing Authority, Orange County Public Financing Authority, Orange County Public Facilities Corporation, and certain special districts. Additional information on these entities can be found in Note 1.A in the Notes to the Basic Financial Statements.

The County maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board. Activities of the General Fund and most of the Special Revenue, Debt Service, and Capital Projects funds are included in the annual appropriated budget. The level of budgetary control (that level which cannot be exceeded without action by the Board) is at the fund-agency unit level, which represents a department or an agency. Budget-to-actual comparisons are provided in this report for each governmental fund for which an appropriated annual budget has been adopted. The Budgetary Comparison Statement for the General Fund and Major Special Revenue Funds are part of the Basic Financial Statements. For Nonmajor Governmental Funds with appropriated annual budgets, this comparison is presented in the Supplementary Information for governmental funds. The County also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered appropriations do not lapse at year-end; encumbrances outstanding at that time are reported as reservations of fund balance for the following year's budget. Additional information on the budgetary process can be found in Note 1.D in the Notes to the Basic Financial Statements.

The County of Orange Internet Site at <http://www.oc.ca.gov> provides extensive information about County government and its services to the citizens of Orange County and others who visit our web pages. Approximately 300,000 visits are made to the Orange County web site each month and those visitors view over 1 million pages of information. The County's website includes information about the Board of Supervisors, e-mail to Board offices, Board Agendas, County job listings, Purchasing bid solicitations, County directories and general information, assessment appeals, links to court information and local court rules, voter information, County permits and forms, financial information such as the County tax rate book, the budget, and the four most recent CAFRs. The site also provides several online services, including the ability to listen to Board meetings live and archived, online public comments to Board agendas, County purchasing online, ordering birth, death and marriage certificates online, performing a fictitious business name search, and looking up election results and polling places. The County continues to improve the website by increasing citizen's ability to conduct business online with the County.

## **FACTORS AFFECTING FINANCIAL CONDITION**

### **Local Economy**

Orange County is fortunate to have a strong and diverse local economy that routinely outperforms the state and national economies (in annual percentage growth), and ranks higher (in absolute dollars) than the economies of the majority of the countries in the world. However, as Chapman University Center for Economic Research reports, "It seems as if the national recession has finally caught up with Orange County." This section provides various indicators that describe the projected outlook of the Orange County economy.

The growth in the Real Gross County Product (GCP - a measure of the value of goods and services produced in one year and an indicator of the strength of the local economy) was estimated by Chapman University to increase by 2.3% in 2002 and reach \$121.5 billion. The 2002 GCP represents a revised forecast that adjusts for prior year GCP indicators. The Orange County 2002 GCP compares to an increase in Gross State Product (for California) of 1.47% and an increase in Gross Domestic Product of 3.54% at the national level during the same time period.

Orange County's unemployment rate continues to be one of the lowest in the State, and is below that of all surrounding Southern California counties, the state of California and the nation. In October 2002, unemployment rates for the U.S., California and Orange County were recorded at 5.7%, 6.2%, and 4.0% respectively. In October 2002, rates for surrounding counties in Southern California were 6.1% for Los Angeles County, 6.5% for Riverside County, 5.6% for San Bernardino County and 4.2% for San Diego County. According to Chapman University, Orange County's job growth in 2002 totaled .29% (approximately 4,156 new jobs) and is projected to average 1.61% (approximately 22,914 new jobs) through the end of 2003.

Inflation, as measured by the Consumer Price Index (CPI), is also expected to remain moderately low in Orange County, despite being higher than the CPI at the state and national levels. Chapman University projects the CPI at the national level to increase by 2.3%, in California by 2.4%, and in Orange County by 2.7% in 2003.

According to DataQuick Information Systems, in October 2002 the median price for new and existing homes in Orange County increased by 19% (relative to October 2001), and reached \$369,000. Housing appreciation in Orange County has been rapid in response to the high demand for housing caused by low interest rates and a tight supply of housing. For the future, Chapman University is projecting that housing appreciation will slow down, due primarily to the expected slowdown of the local economy.

Orange County's median family income is projected by the U.S. Department of Housing and Urban Development to increase by 2.6% in 2002, reaching \$75,600. This compares to 4.1% (reaching \$60,800) for the State of California and 3.6% (reaching \$54,400) for the U.S. in 2002. Taxable sales in Orange County are projected by Chapman University to increase by 1.2% in 2002 and forecast to increase by 3.4% in 2003.

### **Retirement**

In 2000, the Governor signed Assembly Bill 1937 into law. The Bill gave the State Public Employees Retirement System and 1937 Act Retirement Plans (which includes Orange County's Retirement System) the option to offer a new benefit formula known as 3% at 50 for public safety members. The Association of Orange County Deputy Sheriffs (AOCDS) requested a contract re-opener to discuss this benefit. Based on market research and the need to maintain competitiveness in the public safety labor market, the County Board of Supervisors amended the AOCDS Memorandum of Understanding on December 4, 2001, implementing a 3% at 50 retirement formula for public safety employees effective June 28, 2002. The initial estimated annual cost of this benefit is \$14.7 million and will be funded by a combination of existing Public Safety Sales Tax, law enforcement contract revenue, contributions from the public safety employees and from the County General Fund. Costs of this benefit have been included in the County's 2002 Strategic Financial Plan. In addition, the County Board of Supervisors adopted amendments to the Probation Services Unit and the Supervising Probation Officers Unit Memoranda of Understanding in May 2002, implementing prospective safety retirement benefits for these units. Beginning on June 28, 2002, a 2% at 50 safety retirement formula was implemented for the Probation units. Beginning in June 2003, the retirement formula will change to 3% at 50. The financial impact of this change will be incorporated in the next strategic financial plan.

### **Property Tax Assessment Appeals**

In November 2001, an Orange County Superior Court judge ruled in favor of a Seal Beach property owner who had filed an assessment appeal with the County Assessment Appeals Board No. 3, citing an unlawful assessment of his parcel in excess of the 2 percent provision of Proposition 13. The judge declared that the County Assessor had used an illegal assessment method in recapturing the Proposition 13 values of the homeowner's parcel. The County Assessor is currently considering asking for the appellate court review of the ruling. If the court's ruling is upheld, the County could potentially face refunding millions of dollars to taxpayers, which is currently estimated at \$41.7 million for fiscal years 1998-99 through 2001-02, and reduction in future tax revenues. Additional information on this topic can be found in Notes 17 and 21 in the Notes to the Basic Financial Statements.

### **Water Quality**

The County and cities received two new area-wide municipal storm-water permits in January and February of 2002 from the California Regional Water Quality Control Boards covering Orange County. The County is the lead permittee under both permits. The new permits are much stricter and more detailed than previous municipal storm-water permits and also impose significant new requirements related to non-storm urban runoff. The permittees are required to review plans and inspect projects to ensure compliance, monitor streams and flood control channels, and report their activities and monitoring results to the Regional Water Quality Control Boards. The permits require new management practices in all thirteen watersheds in the County, and direct the permittees to cooperate in appropriate regional and



watershed water quality management programs. The County and cities must determine and implement best management practices (BMP's) for public projects, commercial/industrial activities, construction sites, and municipal operations and maintenance activities to prevent pollution from contaminating streams, beaches and ocean waters through the storm drain system.

The Public Facilities and Resources Department (PF&RD) has organized committees of co-permittee representatives to develop countywide model program elements, including assessment, monitoring, and inspection programs, as well as BMP's. County involvement must also include the CEO, the Planning and Development Services Department (PDSD) and the Health Care Agency (HCA), in addition to PF&RD. The cost of these activities is substantial, and management is considering a variety of potential funding sources to minimize the impact on the County General Fund.

### **Long-Term Financial Planning**

Strategic Plan: In March 1997, the Orange County Board of Supervisors initiated a financial planning process that is a key component of the County's commitment to fiscal responsibility, accountability and efficiency. As a result, the County has produced five Strategic Financial Plans, the most recent being adopted by the Board on December 5, 2001. The plan includes projections of County general purpose revenues, departmental projections of operating costs, revenues and capital needs for current programs and services and anticipated caseload changes. New programs, services and capital projects are identified and put in priority on a countywide basis to the extent that resources and requirements remain in balance over the next five years. The plan covers a five-year period and includes a ten-year analysis of operating costs in cases where new programs and facilities are recommended to ensure the ability to pay for long-term operational costs. This plan provides the Board with a comprehensive long-term view that serves as a framework in which to fund public services to sustain the well-being of the community. The plan alerts the County to potential financial obstacles on the planning horizon and allows time to proactively plan ways in which to deal with those challenges successfully. The plan is currently being updated and will be presented to the Board in early 2003.

Marine Corps Air Station Tustin: In 1991 and 1993, the Marine Corps Air Station (MCAS) Tustin was noticed for closure by the Federal Government. This 1600-acre base is located primarily within the City of Tustin, and a small portion is located within the City of Irvine. The City of Tustin was designated as the Local Redevelopment Authority (LRA) by the Department of Defense at this time, and is responsible for completing a community reuse plan for this now closed military facility. In 1995, the Board of Supervisors approved several proposals for submission to the Tustin LRA for inclusion in the planning efforts for base reuse. These regional projects include: Urban Regional Park, relocation of the Animal Care Center, the Orange County Regional Law Enforcement Training Center, and various flood control and trail facilities.

These submittals were approved by the City of Tustin as part of the MCAS Tustin Specific Plan/Reuse Plan. The County also pursued the necessary Federal approval for these submissions on a parallel track, and various approvals were secured in 1994, 1999 and 2000. The City of Tustin endorsed the County's conceptual plan for reuse of proposed conveyances to the County in May 2000. Designs of individual County uses followed these approvals.

In 1999, the County also entered into an agreement with the Department of the Navy (DON), the California State Historic Preservation Officer, and the Federal Advisory Council on Historic Preservation concerning the disposition of Blimp Hangar #1 (which is part of the Urban Regional Park Site). A study concerning Reuse Assessment of this structure was completed in 2001. Other buildings conveyed to the County were also independently assessed in 2001.

As the base closure process continued, key milestones were reached in 2001 as the City of Tustin adopted a General Plan Amendment to implement the proposed base reuse plan, and also certified the necessary Environmental Impact Report (EIR). In March 2001, the DON issued its Record of Decision (ROD) and the Environmental Impact Statement (EIS) as required by Federal Law. Litigation ensued and was subsequently resolved at each level.

The DON signed the City of Tustin's Economic Development Conveyance in March 2002. In 2002, the Board of Supervisors selected a planning consultant to conduct a comprehensive site plan for all County uses in the Regional Park site, review hazardous materials studies performed by the DON, and provide a detailed analysis of the potential costs of utilizing the properties to be conveyed to the County of Orange. The County is also working with the DON to prepare a Lease in Furtherance of Conveyance for Board of Supervisors consideration. Additionally, the Board also authorized a feasibility study for reuse of the blimp hangar as a military museum. Solicitations for other blimp hangar reuse concepts will be sought later this year. The results of all of the studies and the solicitation will assist the Board of Supervisors in providing policy direction in 2003.

Marine Corps Air Station El Toro: On March 5, 2002, Orange County voters passed Measure W, the Orange County Central Park and Nature Preserve Initiative. The initiative amended the Orange County General Plan and restricts the types of land uses on County-owned land within unincorporated County territory at the former Marine Corps Air Station (MCAS) El Toro. The passage of Measure W repealed a previous voter adopted measure, Measure A, which designated much of MCAS El Toro for civil aviation and related uses. The Measure W Initiative is the subject of on-going litigation.

On April 16, 2002, following the passage of Measure W, the Board of Supervisors directed that the County not develop a Measure W reuse plan for MCAS El Toro. The Board further directed that the County negotiate with the DON to terminate the Master Lease with the Navy for the property at MCAS El Toro. In addition, the Board took action supporting annexing MCAS El Toro to the City of Irvine, excluding areas designated for County regional facilities. On June 25, 2002, the Board approved the termination of the Master Lease with the DON, effective June 30, 2002. In addition, the Chair of the Board withdrew her support for annexation of MCAS El Toro to the City of Irvine. As a result, the County is no longer assisting the City of Irvine in the annexation process.

Subsequent to June 30, 2002, the County has proceeded to complete all close-out activities associated with the termination of the County's Master Lease with the DON, and those activities associated with planning for civil aviation facilities and related uses at MCAS El Toro.

Santa Ana River Mainstem Project: The Santa Ana River Mainstem Project is a major flood control project, which when fully completed, is designed to prevent the type of devastating damage caused by large-scale flooding that can occur on the average of once every 190 years in the Santa Ana River flood plain. This project involves a combination of flood channel widening and reinforcement, construction of a new dam, Seven Oaks Dam, and raising the existing Prado Dam. The U.S. Army Corps of Engineers (COE) has agreed to designate the Prado Dam feature of this project as a separate element, with a separate implementation and cost share agreement between the COE and the Orange County Flood Control District (OCFCD) only. Upon approval of the new agreement, the OCFCD's funding requirement is guaranteed not to exceed 50% of the costs for the Prado Dam element.

The Federal government, OCFCD, San Bernardino County Department of Transportation/Flood Control District, and Riverside County Flood Control and Water Conservation District are cost sharing this project based on the COE's estimated total cost of \$1.4 billion. The OCFCD currently estimates its share of the costs to be \$413 million for acquisition of real property rights for construction of this project, relocation of designated roads, bridges, trails, channels and utilities, and construction cost share contributions.

OCFCD's remaining share of the project's costs exceeds current available funds. However, this project has been authorized by the State Legislature, making it eligible for State Flood Control Subventions (reimbursement of 70% of OCFCD expenditures). An estimated \$44 million in budgeted or encumbered funds are expected to be reimbursed to the OCFCD over the next 12 months, after audit, by the State Department of Water Resources (DWR). Once a claim is reviewed and approved by the DWR, 90% of the eligible expenditures can be paid if funds are available, with the remaining 10% paid after an audit by the State Controller's Office. As of June 30, 2002, the OCFCD has spent an estimated \$212 million on this project, with resulting claims for estimated reimbursement of \$146 million, which have already been submitted or will be submitted over the next 12 months. To date, the OCFCD has submitted \$134 million in claims for reimbursement of eligible expenditures and received \$101 million in reimbursements. The County does not accrue these claim amounts as revenue due to the uncertainty of DWR eligibility approval and the typical lengthy review and audit completion time periods after claim submission.

**Trial Court Facilities:** On September 30, 2002, Governor Gray Davis signed the Trial Court Facilities Act of 2002 (SB 1732). This landmark legislation shifts governance of California's more than 450 courthouse facilities from the counties to the State. Although the bill will take effect on January 1, 2003, it is anticipated that the transition time will take up to 7 years. Court master planning by the State has already begun in Orange County. The County will develop a transition plan that will identify the impacts and the steps necessary to ensure a smooth and timely transition. Some important areas to consider in the development of the transition plan will be bonded indebtedness, County department staff within court facilities, deferred maintenance, and capital projects. Once completed, this transfer will cap the County's financial obligation to court facilities to a Maintenance of Effort amount established under the legislation.

### **Cash Management Policies and Practices**

Cash temporarily idle during the year was invested in the Orange County Investment Pools. The Treasurer maintains two separate investment pools, the Orange County Investment Pool (County Pool) and the Orange County Educational Investment Pool (Educational Pool), the latter of which is utilized exclusively by the County's school districts. The California Government Code and the Treasurer's Investment Policy Statement (IPS) govern the investment of the County and Educational Pools. The IPS is submitted annually to the Treasury Oversight Committee and the Board of Supervisors and authorizes investments in the following categories: U.S. Government securities, securities of federally sponsored agencies, domestic commercial paper, negotiable certificates of deposit, repurchase agreements, banker's acceptances, money market mutual funds, State of California or California Municipal debt, receivable backed securities and medium term notes. The IPS prohibits borrowing for investment purposes, reverse repurchase agreements, and volatile structured notes and derivatives. For purposes of determining net asset value of the funds, investments are marked to market on a daily basis. If the net asset value of either the County Money Market Fund or the Educational Pool is less than \$.995 or greater than \$1.005, portfolio holdings may be sold as necessary to maintain the ratio between \$.995 and \$1.005.

The IPS establishes a Money Market Fund and an Extended Fund. Both of these funds are components of the County Pool. Only the Money Market Fund is a component of the Educational Pool. The maximum term of any investment in the Money Market Fund remains thirteen months and the weighted average maturity is limited to ninety days. The maximum term of any investment under the Extended Fund is three years with the weighted average maturity limited to eighteen months. The Treasurer will determine, based on cash flow projections, the amount of money to invest in the Extended Fund.

In addition to "Pooled Cash/Investments," the Treasurer maintains individual specific investments for certain funds. These amounts comprise a small portion of the total investments managed by the Treasurer. The permitted investments for these funds are dictated by operation of federal or state statute, bond documents, and by mutual agreement with the investing entity.

The County held a portion of its Restricted Cash and Investments with Trustee in the form of non-participating Bank Investment Contracts (BICs). These BICs are considered deposits with financial institutions and amount to \$13.1 million, of which \$200 thousand was insured by the FDIC insurance with \$1.5 million collateralized for non-pooled investments BICs and \$11.6 million uncollateralized for the Restricted Cash and Investments BICs. The remaining portion of the County's deposits are either insured by federal depository insurance or are collateralized with securities having a market value of at least 110 percent of the deposits in accordance with Section 53652 of the California Government Code. Collateral of 150 percent is required if a deposit is secured by first mortgages or first trust deeds upon improved residential real property located in California. Portfolio investments, other than money market mutual funds, are held by a third party custodian in the County's name and are classified in the category of lowest custodial credit risk as defined by the GASB.

At June 30, 2002, the weighted average maturity of the County Pool was 179 days and the Educational Pool was 57 days. The average daily investment balance of the County Pool and the Educational Pool amounted to \$46 billion and \$39 billion, with an average effective yield of 3.11 percent and 2.80 percent, respectively, for the fiscal year ended June 30, 2002. The pools managed by the Treasurer have outperformed their designated benchmarks of the 90-day U.S. Treasury Bill and an average of four similar institutional money market funds. Additional information on the County's cash management policies and practices can be found in Note 4 in the Notes to the Basic Financial Statements.



## **Risk Management**

The County has maintained a formal risk management program since the mid 1970's. Risk Management functions include: risk identification, avoidance, prevention, transfer, mitigation and financing programs. Risk financing is achieved through both self-insurance (risk retention) programs and the purchase of commercial insurance. Claims and litigation management also includes subrogation cost recovery activities.

Resources are budgeted in the Workers' Compensation Internal Service Fund and the Property, Casualty and Risk Internal Service Fund. These Internal Service Funds pay program costs including losses, expenses and administration costs. The cash reserves held in these Internal Service funds are restricted to the payment of current and future costs. Actuarial studies are performed annually to determine the funding requirements for these activities.

Commercial insurance coverage is purchased for the County's property and for certain specialized liability exposures related to airport, helicopter, watercraft, and dam operations. Additionally, fine arts, underground storage tank, boiler and machinery, crime bond policies, notary bonds, and excess insurance for liability and workers' compensation are also purchased. All other liability exposures including general, auto and workers' compensation are self-insured. Various risk control techniques including employee accident prevention training and regular work-site inspections have been implemented to minimize losses.

## **Pension and Other Postemployment Benefits**

The County of Orange sponsors a cost-sharing, multiple-employer, public employee retirement system, the Orange County Employees Retirement System (OCERS) for all its employees. OCERS provides for retirement, death, disability and cost-of-living benefits, and complies with the 1937 County Employees' Retirement Law and other applicable statutes. The County funds OCERS through periodic contributions which, when combined with required employee contributions and investment income, will provide retirement benefits for all its employees.

The County's Board of Supervisors and the OCERS Board signed an agreement in 1996 for the use of \$318 million in pension obligation bond proceeds. The proceeds from the bonds were placed in an investment account within OCERS, for the sole purpose of paying County annual obligations for retirement. The investment account is credited with market earnings of OCERS and debited according to a formula that considers available balance and obligations. The investment account balance as of June 30, 2002 was \$195.1 million (unaudited).

The County is required to pay any retirement costs not paid by the investment account. The investment account was originally projected to pay 75% of the County's retirement costs in FY 2001-02; however, due to higher than anticipated investment earnings, the County's \$38.3 million retirement cost for the year was paid entirely by the investment account.

The County of Orange provides two retirement benefit plans for employees performing services at less than half time or as extra help. Employees eligible under these plans are not covered by OCERS. In January 1992, the County adopted the 1992 Defined Benefit Retirement Plan, a single-employer defined benefit retirement plan, to comply with the Omnibus Budget Reconciliation Act of 1990. The County relies on actuarial studies to determine its required contributions to this plan, which, when combined with required employee contributions, will provide retirement benefits to extra-help and part-time employees. On February 28, 2002, this plan was closed to new participants and was replaced by the Defined Contribution Plan, a tax-deferred retirement plan, to cover all new extra-help and part-time employees. Participants of this plan are required to contribute 7.5 percent of compensation each pay period.

In addition to pension benefits, the County also provides post-retirement health care benefits for 4,739 retirees. These benefits are funded from current employee contributions, OCERS and the retirees themselves. All eligible participants must be eligible to retire, have a minimum of 10 years of County service and reached the age of 50. Participants must also be receiving a monthly retirement allowance from OCERS and be enrolled in a County health plan at the time of retirement.

The County also provides its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457 (Deferred Compensation Plan). The Plan allows employees to defer a portion of their salary until future years. The deferred compensation is only available to employees upon termination, retirement, death, or certain other cases. On January 1, 1998, the County placed all Plan assets in trust accounts for the exclusive benefit of its participants to comply with the requirements of the Small Business Job Protection Act of 1996.

Additional information on the County's pension arrangements and post-employment benefits can be found in Notes 19 and 20 in the Notes to the Basic Financial Statements.

## **AWARDS AND ACKNOWLEDGEMENTS**

GFOA Award: The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Orange for its CAFR for the fiscal year ended June 30, 2001. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Governing Magazine: The February 2002 issue of Governing Magazine ranked 40 of the nation's largest counties in the areas of financial management, capital management, human resources, managing for results and information. Overall, Orange County ranked second among California's nine largest counties and in the top 13 nationwide.

Acknowledgments: I would like to express my sincere appreciation to the staff from my office, other County departments, especially the CEO and the PF&RD, the staff of the certified public accounting firm of Macias, Gini & Company LLP, and the GASB 34 Steering Committee and its workgroups for making possible the timely presentation of this CAFR. I hope this report will be of interest and use to those in County government, other governmental agencies, and the public interested in the financial activity of the County of Orange.

Respectfully submitted,

*Original Signed by  
David E. Sundstrom*

David E. Sundstrom, CPA  
Auditor-Controller